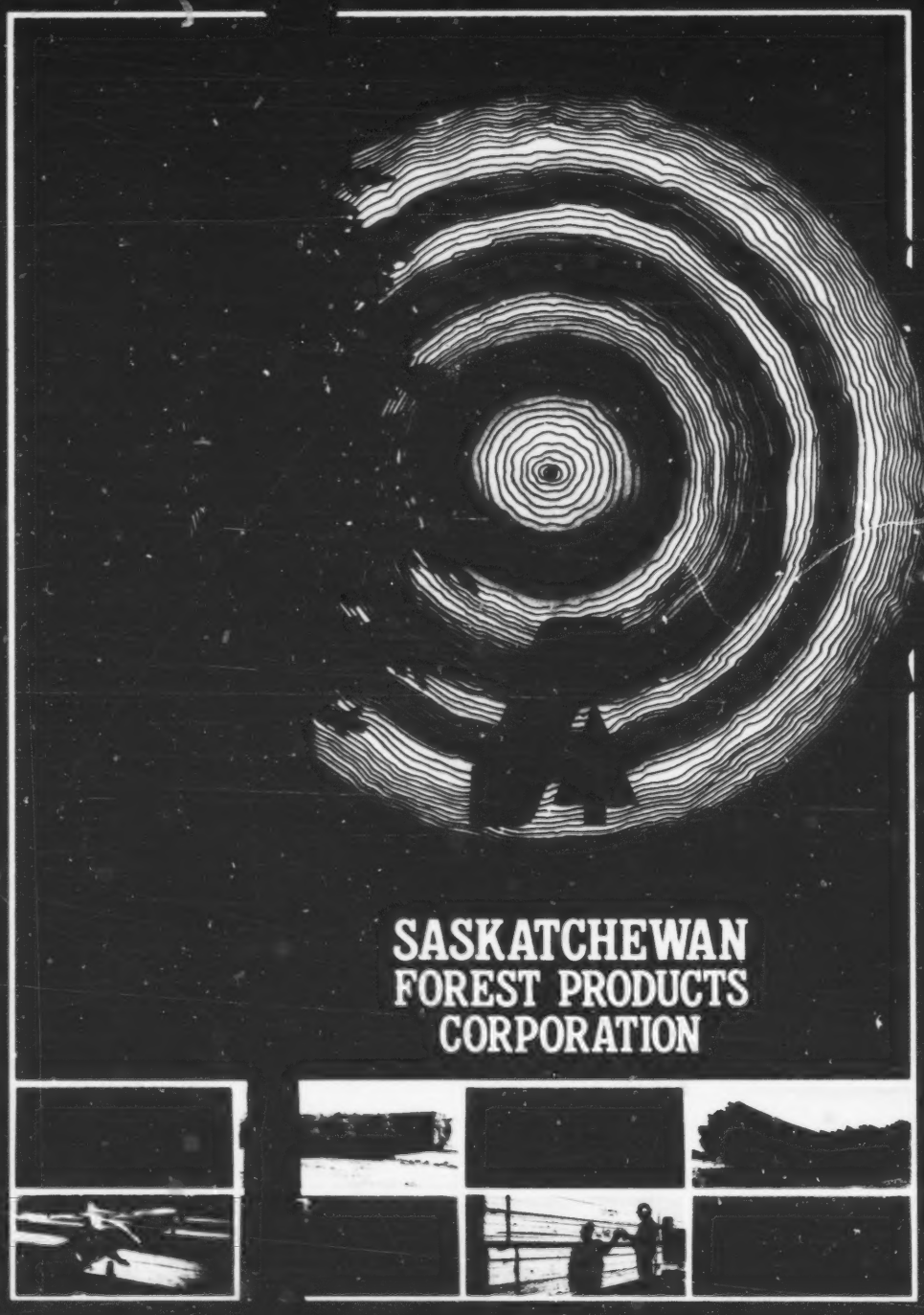

SASKATCHEWAN FOREST PRODUCTS CORPORATION

1984 ANNUAL REPORT

85-5115/

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Board of Directors ..... Inside Back Cover

HISTORY OF LOGGING TOOLS

A. PIG'S FEET
used for skidding & loading, a hook on one end gripped the log while a loop on the other was threaded with cables.

B. DOUBLE-BITTED AXE
the basic logging tool; its two cutting edges were kept razor-sharp to allow twice as much cutting before sharpening was required.

C. CROSSCUT SAW
taller than most men, these saws were the loggers' main falling tool, nicknamed the 'misery whip' for the jarring side to side motion.

D. CROSS SECTION
early loggers were often required to scale and grade logs in the woods.

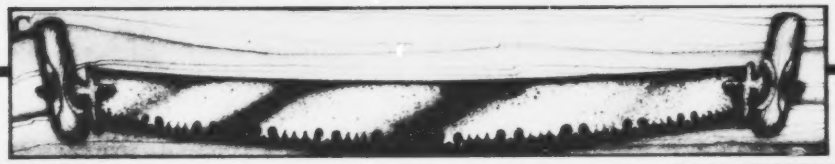
E. PIG TAIL LOOP
used mainly for skidding, these were used as wire guides, and to cinch chokers around logs.

F. SPUD
a spade-like, flat-edged tool used to peel bark from logs and speed timber drying.

G. TRAIL DOGS
often called "rail shackles", these hooked logs together for water or ground hauling.

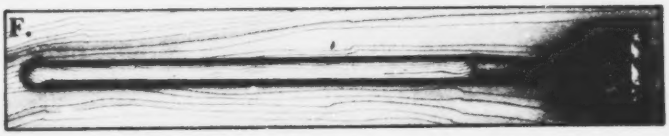
H. CHAIN SAW
these early models commonly needed 2 men to operate, could weigh as much as 60 lbs., and were prone to breakdowns.

I. STEEL TONGS
a simple but effective tool for gripping logs, still used in many operations today.

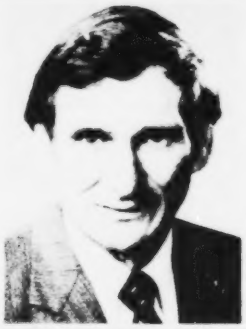


40TH
ANNUAL
REPORT

SASKATCHEWAN FOREST PRODUCTS CORPORATION



YEAR ENDED
OCTOBER 31, 1984



LETTER OF TRANSMITTAL

Regina, Saskatchewan
February 1, 1985

To His Honour,
The Honourable Frederick W. Johnson,
Lieutenant Governor of the Province of Saskatchewan.

Sir:

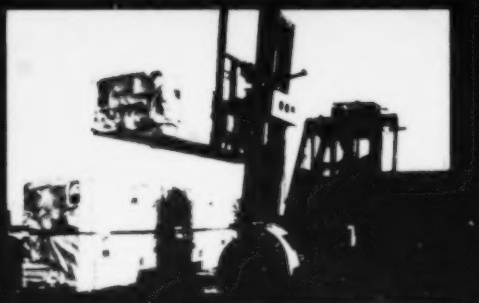
I have the honour to submit herewith the annual report of Saskatchewan Forest Products Corporation for the year ended October 31, 1984 including the financial statements therefore, duly certified by the Corporation's auditors and in the form approved by the Treasury Board, all in accordance with The Crown Corporations Act, 1978.

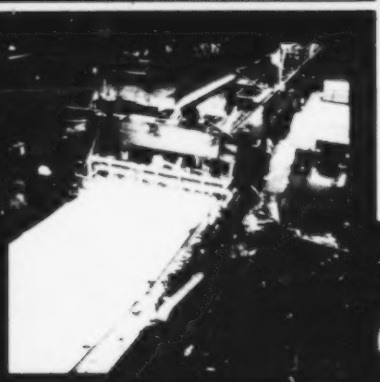
I have the honour to be, Sir,

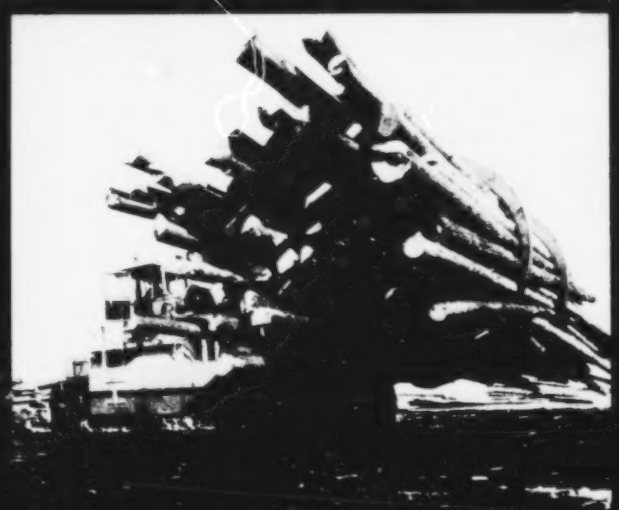
Your obedient servant,

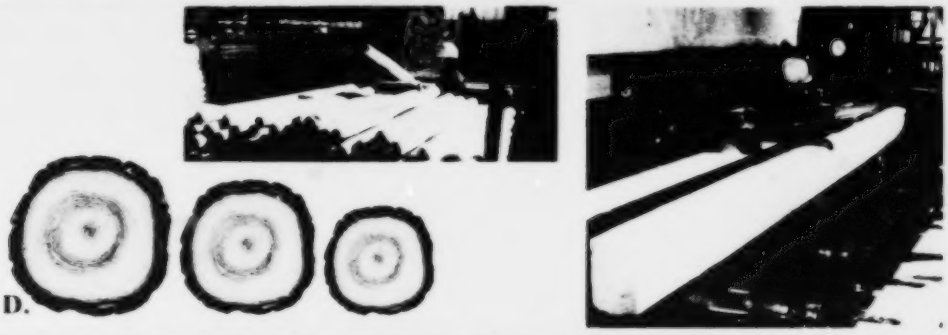
Neal Hardy,
Minister Responsible,
Saskatchewan Forest Products
Corporation

PRODUCT
AND
LOCATION









D.

REPORT OF THE GENERAL MANAGER

Review of 1984

As in 1983, recovery from the recession in 1982 still continues to be uncertain. Markets during this past year have wavered in uncertainty. Lumber prices dropped in the first quarter, recovered to a peak in April, dropped again, and recovered slightly towards the end of the period.

Plywood selling prices hit a low in May, which prompted the curtailment of the Plywood Plant for seven weeks. Although demand was not strong in July, the plant was started again and markets firmed in the last quarter. Inventory was reduced to normal levels. The market and demand was such that although plywood price was not profitable, a third pressing shift was started in November to reduce losses and also reduce peeler bolt inventory.

In treated wood products, the fence post market has been extremely poor this year, probably due to the financial problems that many farmers had in this past season. We are continuing to produce at normal rates in anticipation of better markets next year. Sales have continued at a moderate level in poles. Piling sales have been good, particularly due to the building of the Tech. School and other projects in the area. Sales in the treatment plant have averaged in excess of $300,000 a month, with the low period being January and the highest being in the last four periods of the year.

Outlook

Forecast of U.S. housing starts for 1984 has been approximately 1.7 million. It is anticipated that next year could be about the same. Views on this are constantly changing from slightly less than 1984 to slightly more. The company has predicted a slight improvement in both plywood and lumber selling prices for next year. In the U.S., total 1983 softwood lumber consumption was considered to be 36 billion board feet, of which 37% was used in residential construction. The repair and remodelling trade contributed 22% and industrial used 18%. It is expected that repair and remodelling will continue to be a major factor in lumber consumption in both the United States and Canada because of continuing high interest rates and the high cost of residential housing.

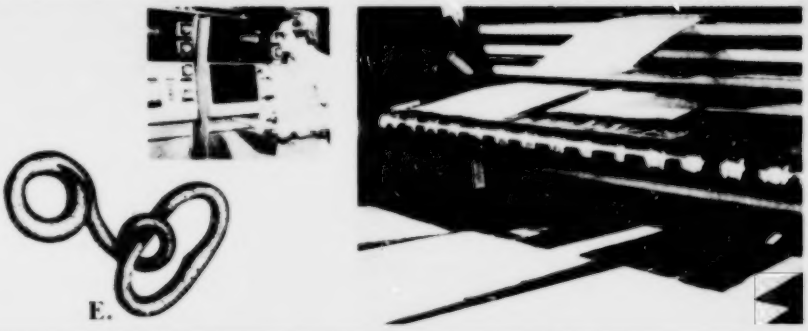
Although lumber prices have dropped approximately $10 below those of 1983, we are forecasting an uplift of slightly over 1983 values. In plywood, selling prices have dropped $10 from 1983 but are expected to recover to the 1983 levels in 1985.

It is expected that treated wood sales will enhance next year's sales volume, and if 10 or 12 million feet of Outdoor Wood is sold, then approximately $4 million will be added to gross sales in the treatment plant — almost double present sales.

The company must inventory both poles and lumber in the winter months in order to prepare for the treating required prior to the spring.

Financial

Because of lower selling prices and curtailment of both the plywood plant and to a lesser extent Carrot River, total company sales dropped from $31.5 million to approximately $28 million. Sales volumes and revenues from lumber



were significantly higher than in the previous year while revenues from plywood and treated products were down sharply.

In the 1984 year the corporation was able to hold its loss at approximately $4,455,000, of which approximately $2.0 million was interest expense.

The primary reason for losses in addition to high interest is a combination of lower selling prices and increased hourly labour rates. Productivity has been maintained at each operating area in spite of the curtailments.

Interest expense paid on loans this year amounts to $2.0 million, which represents 7% of total sales. In spite of lower interest rates on our operating loan and C.M.B. loans, the ratio compared to total sales is high.

Capital spending was restrained this year with total spending of $1,656,000, a reduction of $676,000 from the approved budget. A major portion of this spending was for the replacement of aging mobile equipment at each of three plants. The construction of the new log line at Big River and improvements to some associated equipment accounted for approximately $375,000. Construction of major access roads totalled $218,000.

Cash flows during the year were adversely affected by poor market conditions. It was necessary to arrange for interim, short-term borrowing of $8 million from the Bank of Nova Scotia and Barclay's Bank. A refinancing package was arranged near year end with C.M.B., which will provide for the pay-out of these loans and allow us the necessary working capital to acquire the wood inventory for the coming season. Our authorized borrowing power was increased to $20 million.

At the end of the year a Reforestation Fund at Hudson Bay was closed out. The resultant refund of prepaid reforestation dues helped improve our cash position by $223,700.

REPORT ON OPERATIONS

Woodlands

Mr. Paul Klotz became Manager of Woodlands, replacing Brian Firby, who left the company at the beginning of the year.

In this year Woodlands operations have been fully committed to developing jackpine poles and sawlogs for end use in our treating plant. The company has been highly involved with the Timber Allocation Committee and the rationalization of the forest use in the province. Saskatchewan Forest Products has helped to identify areas of improvement in sawmilling in the west side of the province and has worked with Papco and Simpson to define the availability of wood on the eastern half of the province. It is considered that this program on the rationalization of forest use is in the home stretch.

A new chip supply agreement has been signed with Papco. In addition, the commercial agreement between Papco and SaskFor on log supply was signed in November, 1984. The F.M.L.A. should be progressed following this, with designated areas and volumes being provided by D.P.R.

Big River Sawmill

At Big River, a new manager was in place prior to the 1983 year end. Subsequently, we experienced reduced manpower and improved production flexibility. The Cambio debarker and speed control changes to the Chip 'n Saw project was on line in May, 1984. Progress has been made on increasing piececounts and production even with the smaller log diameters. During the installation of the debarker and other changes, a Maintenance Supervisor was hired and was used to pass on his technology to our present crews. A new Maintenance and Operating Superintendent was appointed from the Big River crew following this expansion program.

A new Wagner log loader was put into service in the mill yard to replace the old crane which has proven successful in reducing truck turn-around time and log handling capabilities for the higher production rates.

Carrot River Sawmill

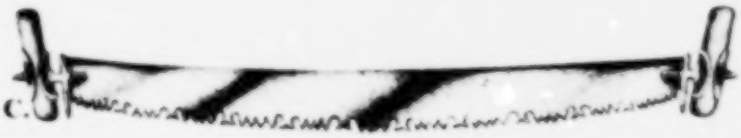
Operations continue much as normal, except that efforts were made to cut some pine for the treatment plant this year. A lease was considered for a proposed Dehy Plant on the west side of the existing approach road. This lease was never completed.

Hudson Bay Plywood Plant

The hydraulic carriage and backstand installation was completed in February, 1984, and has improved recovery and operation at the lathe. Aside from the seven week curtailment begun in June, production in the plant has been at normal levels. There was a problem with excess degrade due to a gradeline sorting problem but this was corrected. At the end of this year we have a high inventory of peeler blocks due to previous years' scheduling and the curtailment this year. Simpson Timber have agreed to curtail their production of peelers to reduce this oversupply. A contract was established with the plywood marketing manager on a renewable yearly basis. The plant ran some poplar veneer trials on 0.2" thickness to determine suitability of veneer for a new manufacturing development that may take place in the Prince Albert area. This is still on-going. The Manager and General Manager visited four plywood plants in Oregon to review automatic curtain coater lay-up lines for potential installation at Hudson Bay. The main saving will be due to a reduction in labour. This potential installation appears to be good, and is incorporated in the capital budget for 1985.

Wood Treatment Plant

A new manager started mid-November. In the last quarter of this year the two retorts have been running together almost continuously, resulting in significantly lower costs of product. Fence post sales were down and Outdoor Lumber is being developed. The plant has also sawn many of the pole and piling trim ends into lumber suitable for treating. In this period, complete product costs have been developed using a new PC computer in the office. We have also achieved a freight reduction on treated wood, amounting to approximately $17.00/M, combined from off-line and direct shipment rates. The Corporation has initiated a program to develop lodgepole pine poles from the Cypress



Hills area if practical and feasible. The main inventory problems in the Treatment Plant were with bridge timbers and fence posts, due to low sales.

Northern Forest Operations Ltd.
(a subsidiary)

Although no results are posted for Northern Forest Operations in this Annual Report, since the assets have not yet been transferred, some positive results have been achieved in higher productivity at the Meadow Lake Planermill and La Ronge. The Weyakwin operation is struggling and the Corporation is endeavouring to develop a better marketing approach for that operation. T.V. spots have been run this fall and will be run again this spring. The Corporation received a mandate to operate Northern Forest Operations from Oct. 31st, 1983.

General

The Company Management have and are in the process of attending meetings and seminars on productivity. In addition, the company senior management will be attending "Achieving Excellence" programs during November and December, 1984. The Company has appointed a new insurance broker effective at this year end to handle its insurance requirements. Previously all insurance was handled through S.G.I. The company also undertook merger studies with Papco which have not been resolved.

The Western Overlay equipment was removed from the Yorkton plant in January, 1984 to facilitate sale of this property. The original lease/purchase agreement with Tower Manufacturing has been replaced by a selling agreement.

The company sold some surplus equipment through the Department of Supply. At Big River, the company gave some of its property to a proposed Big River Nursing Home.

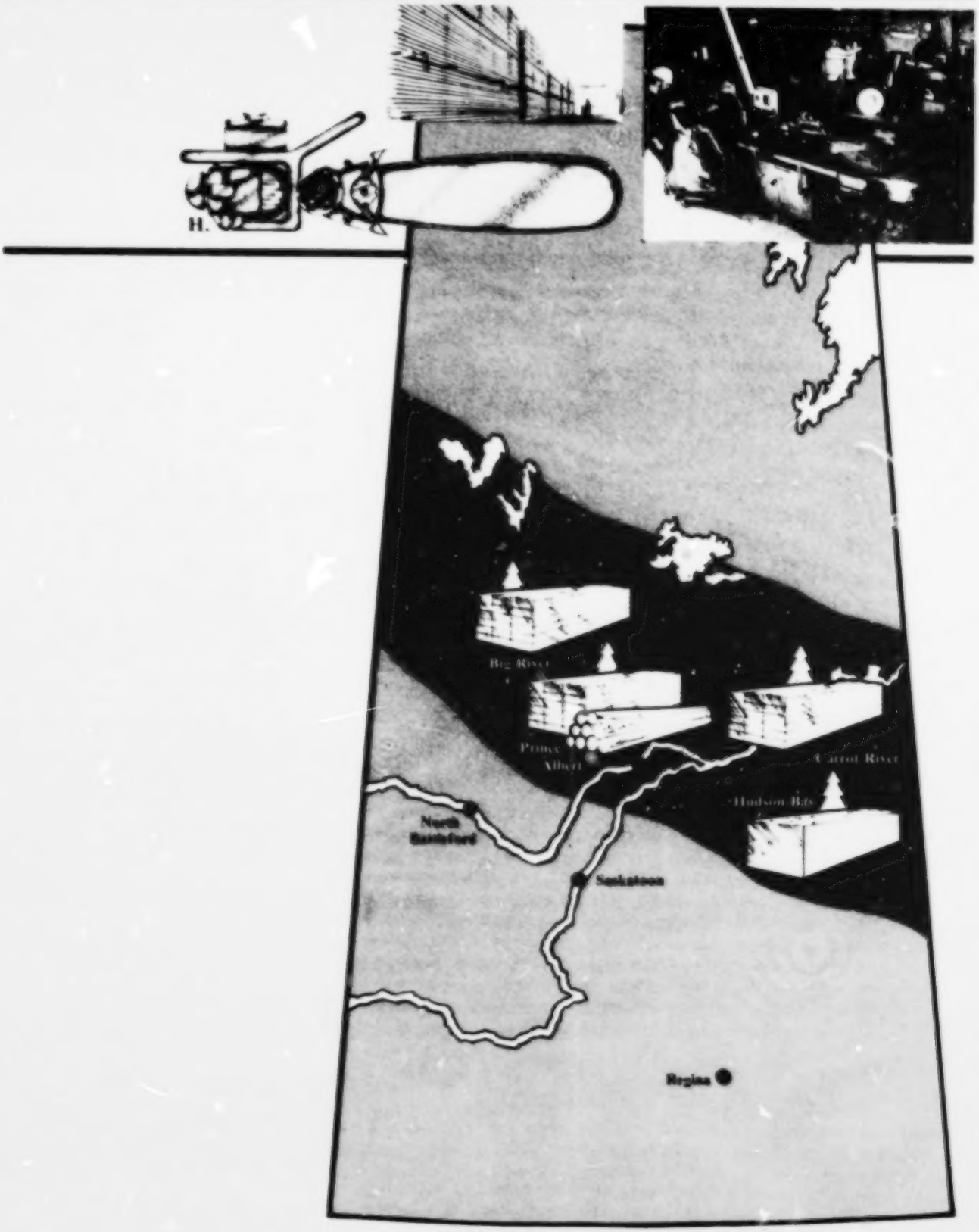
Employee Relations

The period of 1983-84 shows the lowest number of accidents in the Corporation for the past five years — 167 vs a previous low of 204 in the period 1979-80. In 1984 total number of employees on the active payroll at year end (excluding the temporary plywood shift) is 426 as compared to 1983's total of 407.

The period of 1983-84 is considered a significant one in that productivity levels in the Corporation are improving. Union/Management relations have been developing on a more constructive basis to assist the company in its need to develop a more viable operation.

I wish to personally thank all the employees who have contributed towards this improvement in the Corporation, and look forward to continuing positive growth in the company.

E.W. Lawrence,
Acting General Manager,
Saskatchewan Forest Products Corporation.
March 13, 1985.



FOREST PRODUCTS IN SASKATCHEWAN

AUDITORS' REPORT

To the Members of the Legislative Assembly
Province of Saskatchewan

We have examined the consolidated statement of financial position of Saskatchewan Forest Products Corporation as at October 31, 1984 and the consolidated statements of operations and deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the corporation as at October 31, 1984 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Saskatoon, Saskatchewan
December 31, 1984

Price Waterhouse
Chartered Accountants

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		Note Reference	October 31 1984	1983
			(In Thousands)	
Assets	Current assets:			
	Cash on deposit		**$ —**	$ 301
	Accounts receivable		**4,819**	4,485
	Prepaid expenses		**167**	697
	Inventories	1	**13,183**	8,684
			18,169	14,167
	Investments	1 & 2	**286**	302
	Other assets	3	**—**	372
	Property, plant and equipment	1 & 4	**15,434**	14,905
			$33,889	$29,746
Liabilities and Province's Equity	Current liabilities:			
	Bank indebtedness		**$ 3,088**	$ —
	Accounts payable and accrued		**3,076**	2,782
	Short-term loans	5	**9,283**	2,784
			15,447	5,566
	Long-term notes, less current portion	6	**15,548**	16,831
	Province of Saskatchewan's equity:			
	Equity advances from Crown Investments Corporation of Saskatchewan	7	**20,112**	20,112
	Deficit		**17,218**	12,763
			2,894	7,349
			$33,889	$29,746

(See accompanying notes)

CONSOLIDATED STATEMENT OF OPERATIONS AND DEFICIT

	Note Reference	Year ended October 31 1984	1983
		(In Thousands)	
Revenue:			
Sales of forest products		**$27,954**	$31,546
Expenses:			
Operating costs		**27,763**	28,539
Selling, general and administrative		**1,207**	1,822
Depreciation and amortization	1	**1,081**	1,140
Interest on long-term notes	6	**1,866**	2,550
Other interest		**491**	261
		32,408	34,312
Loss before the following		**4,454**	2,766
Share of joint venture loss		**1**	91
Loss before extraordinary items		**4,455**	2,857
Extraordinary items	9	**—**	476
Loss for the year		**4,455**	3,333
Deficit, beginning of year		**12,763**	9,430
Deficit, end of year		**$17,218**	$12,763

(See accompanying notes)

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Note Reference	Year ended October 31 1984	1983
		(In Thousands)	
Working capital provided by:			
Decline in advances to joint venture		**$ 15**	$ 84
Proceeds from the sale of property, plant and equipment		**112**	208
Decrease in other assets		**372**	—
		499	292
Working capital applied to:			
Loss for the year before extraordinary item		**4,455**	2,857
Depreciation and amortization	1	**(1,081)**	(1,140)
Share of joint venture loss		**(1)**	(91)
Gain on sale of property, plant and equipment		**24**	141
Total to operations		**3,397**	1,767
Purchase of property, plant and equipment	1 & 4	**1,698**	989
Increase in other assets	3	**—**	372
Reduction of long-term notes	6	**1,283**	1,367
		6,378	4,495
Decrease in working capital		**5,879**	4,203
Working capital, beginning of year		**8,601**	12,804
Working capital, end of year		**$ 2,722**	$ 8,601

(See accompanying notes)

1. Summary of accounting policies:

The following summary of significant accounting policies contains a description of the accounting methods and practices that have an important impact on the corporation's consolidated financial statements.

Inventories —

Inventories of logs and mill supplies are valued at the lower of cost and replacement cost. Inventories of lumber, plywood and treated products are valued at the lower of average cost and net realizable value. Average cost includes appropriate production overheads.

Investments —

The corporation follows the equity method in accounting for its investment in a joint venture. The corporation's investment in co-operatives is recorded at cost with dividends being reflected in earnings when received.

Property, plant and equipment —

The costs of maintenance, repairs and minor renewals or replacements are charged to operations as they arise. The cost of major replacements, extensions and improvements are capitalized in the property, plant and equipment accounts. Government grants received in connection with the construction or expansion of production facilities are credited to the cost of such assets. On retirement or disposition of property, plant and equipment, the cost thereof and the related accumulated depreciation are eliminated from the accounts and any gains or losses are reflected in the statement of operations.

Property, plant and equipment are depreciated over their estimated useful lives primarily on the diminishing-balance basis at the following rates:

Buildings	5 - 10%
Machinery and equipment	6.7 - 10%
Vehicles	15%
Site improvements	4%
Office equipment	10%
Roads	10%

2. Investments:

	October 31 1984	1983
	(In Thousands)	
Investment in and advances to joint ventures	$ 281	$ 297
Investment in co-operatives	5	5
	$ 286	$ 302

The corporation has a 51% interest in Western Overlay Industries, an unincorporated joint venture. During the year, the joint venture incurred a loss of $195,659 which included interest payable to the corporation of $194,558.

A summary of the financial position of Western Overlay Industries is as follows:

	October 31 1984	1983
	(In Thousands)	
Current assets	$ 31	$ 56
Fixed assets	250	250
Deposit	—	(9)
	$ 281	$ 297
Equity and advances from Saskatchewan Forest Products Corporation	$ 281	$ 297

Under the terms of the joint venture agreement, the corporation has a prior claim on the assets of the joint venture to realize any funds it advanced or invested in Western Overlay Industries. The corporation believes that the other joint venturer is in breach of the agreement and legal action has been commenced to attempt to obtain restitution of certain of the losses incurred to date.

In 1982 Western Overlay Industries discontinued operations for an indeterminable period. As at October 31, 1983 the discontinuance of operations was deemed permanent and all fixed assets of the joint venture have been written down to their anticipated net realizable value. Accordingly, the corporation has written down the carrying value of its investment in the joint venture to the net realizable value of its underlying assets.

3. Other assets:

	October 31 1984	1983
	(In Thousands)	
Advances - reforestation dues	$ —	$ 223
Agreement receivable	—	149
	$ —	$ 372

Advances for the year ended October 31, 1983 consist of payments to the Hudson Bay Reforestation Trust Fund. In 1983 all reforestation dues payable have been applied to reduce the advance. As at October 31, 1984 unused Trust Fund monies of $194,000 plus interest are included in current assets awaiting refund from the Department of Parks and Renewable Resources.

The agreement receivable which related to the sale of fixed assets at the corporation's Prince Albert Retail yard was repaid in the 1984 fiscal year.

4. Property, plant and equipment:

	October 31 1984	1983
	(In Thousands)	
Land	$ 590	$ 533
Building and site improvements	5,868	5,862
Roads and spur tracks	3,370	3,146
Machinery and equipment	12,196	11,073
	22,024	20,614
Less: Accumulated depreciation	6,590	5,709
	$15,434	$14,905

5. Short-term loans:

	October 31 1984	1983
	(In Thousands)	
Bank loans	$ 6,500	$ —
Crown Investments Corporation of Saskatchewan	1,500	1,500
Current portion of long-term notes	1,283	1,284
	$ 9,283	$ 2,784

6. Long-term notes:

	October 31 1984	1983
	(In Thousands)	
Crown Investments Corporation of Saskatchewan 10% promissory note repayable in annual instalments of $83,400. Interest is only payable in years in which the corporation records net earnings.	$ 1,084	$ 1,167
Crown Investments Corporation of Saskatchewan promissory note, see below.	15,747	16,948
	16,831	18,115
Less: Portion due within one year classified as current	1,283	1,284
	$15,548	$16,831

As at October 30, 1982 the corporation had borrowed $15.4 million from Crown Investments Corporation through a series of short-term loans. On October 31, 1982 these short-term loans, together with accrued interest thereon of $1,647,000, were converted to a 15 year long-term loan. Interest on this loan is negotiated November 1 annually. The interest rate over the past year was 11% (1983 - 13%). Principal repayments will be $1,200,000 on each October 31 until maturity with the final payment being $1,347,000. Principal may be repaid prior to maturity without penalty. Interest is due annually.

7. The Province of Saskatchewan's equity:

The Province of Saskatchewan's equity in the corporation is made up of equity advances by the Crown Investments Corporation of Saskatchewan to the corporation since its inception, less amounts repaid or forgiven. These advances are repayable at the discretion of the Crown Investments Corporation of Saskatchewan and do not bear interest. The deficit represents accumulative profits and losses of the corporation since the date of the reorganization on November 1, 1977.

8. Status of Saskatchewan Forest Products Corporation:

The corporation was established by Order-in-Council 1899 of 1949 and continues under the provisions of The Crown Corporations Act. These financial statements will be consolidated in the accounts of the Crown Investments Corporation of Saskatchewan.

9. Extraordinary items:

	October 31 1984	1983
	(In Thousands)	
Share of joint venture extraordinary loss:		
Write-down of fixed assets to their anticipated net realizable value	$ —	$ 199
Write-down of investment in joint venture to the underlying net asset value	—	277
	$ —	$ 476

10. Discontinued operations:

In 1983 the corporation discontinued operations at the Prince Albert and Sturgis Retail Yards and all assets were sold during the year.

11. Related party transactions:

Included in these consolidated financial statements are income and expense amounts resulting from routine operating transactions conducted at prevailing market prices with various Saskatchewan Crown controlled departments, agencies and corporations with which the corporation is related.

Account balances resulting from these transactions are included in the consolidated statement of financial position and are settled on normal trade terms.

Other amounts due to related parties and the terms of settlement are described separately in the consolidated financial statements and the notes thereto.

12. Remuneration:

The corporation's directors received remuneration of $6,000 (1983 - $3,000) during the fiscal year. The senior officers received an aggregate remuneration of $229,000 for 1984 (1983 - $238,000).

13. Contingencies:

The corporation, being the defendant to several unresolved statements of claim, has provided for them in its accounts in accordance with advice received from its legal counsel. Any difference which may arise, between amounts provided and amounts experienced, will be accounted for in the period in which the claims are resolved.

14. Comparative figures:

Certain prior year's figures have been reclassified for comparative purposes.

BOARD OF DIRECTORS

Honourable Neal Hardy, Chairman — Hudson Bay
Harvey Berg — Weekes
Pat Hill — Saskatoon
Armand Quessy — Debden
Alfred Sauder — Carrot River

Secretary to the Board

Ronald J. Kruzeniski — Regina

Corporation Officers and Management

D.B. Lloyd — General Manager
Donald Neely — Manager, Finance and Administration
Paul Klotz — Manager, Woods
Henry A. Peters — Manager, Marketing

Division Management

Rolland N. St. Louis — Manager, Plywood Division, Hudson Bay
Ernie W. Lawrence — Manager, Big River Sawmill Division, Big River
Archibald E. Kiteley — Manager, Carrot River Sawmill Division, Carrot River
Eldon Kerbes — Manager, Wood Preserving Division, Prince Albert